

AD-A037 778

DEFENSE SYSTEMS MANAGEMENT COLL FORT BELVOIR VA  
THE ADVERSARIAL RELATIONSHIP BETWEEN GOVERNMENT AND INDUSTRY.(U)  
NOV 76 M B PATTERSON

F/G 15/5

UNCLASSIFIED

NL

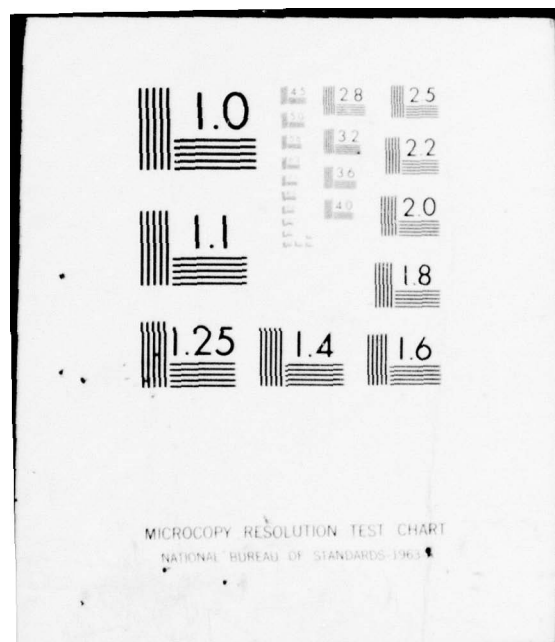
1 OF 1  
AD  
A037778



END

DATE  
FILMED

4-77



ADA 037778

# DEFENSE SYSTEMS MANAGEMENT COLLEGE



## PROGRAM MANAGEMENT COURSE INDIVIDUAL STUDY PROGRAM

THE ADVERSARIAL RELATIONSHIP BETWEEN GOVERNMENT  
AND INDUSTRY

STUDY PROJECT REPORT  
PMC 76-2

Michael B. Patterson  
LT COL USAF

DDC  
RECEIVED  
APR 6 1977  
A

FORT BELVOIR, VIRGINIA 22060

AD No.

DDC FILE COPY.

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle)		5. TYPE OF REPORT & PERIOD COVERED
⑥ The Adversarial Relationship Between Government and Industry,		⑨ Student Project Report, 76-2
7. AUTHOR(s)		8. CONTRACT OR GRANT NUMBER(s)
⑩ Michael B. Patterson		⑪ Nov 76
9. PERFORMING ORGANIZATION NAME AND ADDRESS		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
Defense Systems Management College Ft. Belvoir, VA 22060		⑫ 27p.
11. CONTROLLING OFFICE NAME AND ADDRESS		12. REPORT DATE
Defense Systems Management College Ft. Belvoir, VA 22060		76-2
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		13. NUMBER OF PAGES
		24
		15. SECURITY CLASS. (of this report)
		UNCLASSIFIED
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report)		
UNLIMITED		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
SEE ATTACHED SHEET		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
SEE ATTACHED SHEET		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)		

ACCESSION FOR	
NTIS	Write Section <input checked="" type="checkbox"/>
DDC	Data Section <input type="checkbox"/>
UNANNOUNCED	<input type="checkbox"/>
JUSTIFICATION	
BY	
DISTRIBUTION/AVAILABILITY CODES	
Dist.	AVAIL. and/or SPECIAL
A	

DD FORM 1 JAN 73 1473

EDITION OF 1 NOV 65 IS OBSOLETE

410036

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)



REPORT DOCUMENTATION PAGE	
1. REPORT NUMBER	
2. AUTHOR	
3. TITLE (and Subtitle)	
4. ADDRESS (Organization, City, State, and Country)	
5. REPORT NUMBER	
6. PERFORMING ORGANIZATION NAME AND ADDRESS	
7. AUTHOR	
8. PERFORMING ORGANIZATION NAME AND ADDRESS	
9. REPORT NUMBER	
10. PERFORMING ORGANIZATION NAME AND ADDRESS	
11. REPORT NUMBER	
12. PERFORMING ORGANIZATION NAME AND ADDRESS	
13. REPORT NUMBER	
14. PERFORMING ORGANIZATION NAME AND ADDRESS	
15. REPORT NUMBER	
16. PERFORMING ORGANIZATION NAME AND ADDRESS	
17. REPORT NUMBER	
18. PERFORMING ORGANIZATION NAME AND ADDRESS	
19. REPORT NUMBER	
20. PERFORMING ORGANIZATION NAME AND ADDRESS	
21. REPORT NUMBER	
22. PERFORMING ORGANIZATION NAME AND ADDRESS	
23. REPORT NUMBER	
24. PERFORMING ORGANIZATION NAME AND ADDRESS	
25. REPORT NUMBER	
26. PERFORMING ORGANIZATION NAME AND ADDRESS	
27. REPORT NUMBER	
28. PERFORMING ORGANIZATION NAME AND ADDRESS	
29. REPORT NUMBER	
30. PERFORMING ORGANIZATION NAME AND ADDRESS	
31. REPORT NUMBER	
32. PERFORMING ORGANIZATION NAME AND ADDRESS	
33. REPORT NUMBER	
34. PERFORMING ORGANIZATION NAME AND ADDRESS	
35. REPORT NUMBER	
36. PERFORMING ORGANIZATION NAME AND ADDRESS	
37. REPORT NUMBER	
38. PERFORMING ORGANIZATION NAME AND ADDRESS	
39. REPORT NUMBER	
40. PERFORMING ORGANIZATION NAME AND ADDRESS	
41. REPORT NUMBER	
42. PERFORMING ORGANIZATION NAME AND ADDRESS	
43. REPORT NUMBER	
44. PERFORMING ORGANIZATION NAME AND ADDRESS	
45. REPORT NUMBER	
46. PERFORMING ORGANIZATION NAME AND ADDRESS	
47. REPORT NUMBER	
48. PERFORMING ORGANIZATION NAME AND ADDRESS	
49. REPORT NUMBER	
50. PERFORMING ORGANIZATION NAME AND ADDRESS	
51. REPORT NUMBER	
52. PERFORMING ORGANIZATION NAME AND ADDRESS	
53. REPORT NUMBER	
54. PERFORMING ORGANIZATION NAME AND ADDRESS	
55. REPORT NUMBER	
56. PERFORMING ORGANIZATION NAME AND ADDRESS	
57. REPORT NUMBER	
58. PERFORMING ORGANIZATION NAME AND ADDRESS	
59. REPORT NUMBER	
60. PERFORMING ORGANIZATION NAME AND ADDRESS	
61. REPORT NUMBER	
62. PERFORMING ORGANIZATION NAME AND ADDRESS	
63. REPORT NUMBER	
64. PERFORMING ORGANIZATION NAME AND ADDRESS	
65. REPORT NUMBER	
66. PERFORMING ORGANIZATION NAME AND ADDRESS	
67. REPORT NUMBER	
68. PERFORMING ORGANIZATION NAME AND ADDRESS	
69. REPORT NUMBER	
70. PERFORMING ORGANIZATION NAME AND ADDRESS	
71. REPORT NUMBER	
72. PERFORMING ORGANIZATION NAME AND ADDRESS	
73. REPORT NUMBER	
74. PERFORMING ORGANIZATION NAME AND ADDRESS	
75. REPORT NUMBER	
76. PERFORMING ORGANIZATION NAME AND ADDRESS	
77. REPORT NUMBER	
78. PERFORMING ORGANIZATION NAME AND ADDRESS	
79. REPORT NUMBER	
80. PERFORMING ORGANIZATION NAME AND ADDRESS	
81. REPORT NUMBER	
82. PERFORMING ORGANIZATION NAME AND ADDRESS	
83. REPORT NUMBER	
84. PERFORMING ORGANIZATION NAME AND ADDRESS	
85. REPORT NUMBER	
86. PERFORMING ORGANIZATION NAME AND ADDRESS	
87. REPORT NUMBER	
88. PERFORMING ORGANIZATION NAME AND ADDRESS	
89. REPORT NUMBER	
90. PERFORMING ORGANIZATION NAME AND ADDRESS	
91. REPORT NUMBER	
92. PERFORMING ORGANIZATION NAME AND ADDRESS	
93. REPORT NUMBER	
94. PERFORMING ORGANIZATION NAME AND ADDRESS	
95. REPORT NUMBER	
96. PERFORMING ORGANIZATION NAME AND ADDRESS	
97. REPORT NUMBER	
98. PERFORMING ORGANIZATION NAME AND ADDRESS	
99. REPORT NUMBER	
100. PERFORMING ORGANIZATION NAME AND ADDRESS	

58 ✓

DEFENSE SYSTEMS MANAGEMENT COLLEGE

STUDY TITLE:

THE ADVERSARIAL RELATIONSHIP BETWEEN GOVERNMENT AND INDUSTRY

STUDY PROJECT GOALS:

To determine the existing government policy and actual practice concerning the adversarial relationship between government and industry and analyze the reasons for this relationship's existence.

STUDY REPORT ABSTRACT:

Data was obtained through a review of the literature and correspondence on the subject, and through interviews with procurement officials. It was determined that no specific government policy exists concerning adversarial relationships. However, the relationship is widespread in the defense arena. The relationship results from several immediate causes including the underpricing of contracts, a disproportionate government emphasis on curtailing profits, the nature of the government's procurement system, certain contractor marketing practices and the functional orientation within the weapons acquisition system. The underlying causes of adversarial relationships can be traced to public and congressional attitudes towards defense spending. A trend towards increased adversarial relationships is predicted.

SUBJECT DESCRIPTORS:

Government/ contractor relationships  
Adversarial relationships

NAME, RANK, SERVICE	CLASS	DATE
MICHAEL B. PATTERSON, LT COL, USAF	PMC 76-2	November 1976

1473A

THE ADVERSARIAL RELATIONSHIP BETWEEN  
GOVERNMENT AND INDUSTRY

Study Project Report  
Individual Study Program

Defense Systems Management College  
Program Management Course  
Class 76-2

by

Michael B. Patterson  
LT COL                      USAF

November 1976

Study Project Advisor  
Dr. Joseph Hood

This study project report represents the views, conclusions and recommendations of the author and does not necessarily reflect the official opinion of the Defense Systems Management College or the Department of Defense.



## EXECUTIVE SUMMARY

The purpose of this paper was to explore the adversarial aspects of the government/contractor relationship. Specific attention was directed towards:

- o determining specific DOD policy and contrasting this to actual practice,
- o identifying and analyzing the causes behind this relationship,
- o identifying trends that are developing, and finally, offering some conclusions and recommendations.

The scope of the paper was limited to a broad treatment of the subject and focused on identification and overall explanation of the problem.

Conclusions drawn from the study were:

- o There is no specific DOD policy concerning government/contractor adversarial relations.
- o The existence of this type of relationship is widespread in the defense arena.
- o The adversarial relationship is detrimental to both government and contractor interests. It results in a waste of resources and serves as an impediment to productivity.
- o Adversarial relationships spring, in part, from a number of practices that lead to the underpricing of contracts. The relationship is also caused by a disproportionate government emphasis on curtailing profits, by the nature of the government's procurement system, by certain contractor marketing practices, and by the functional orientation within the weapons acquisition system.
- o The underlying causes of adversarial relationships can be traced to public and congressional attitudes towards defense spending.

- o The prevalence and seriousness of this type of relationship can be expected to increase in the immediate future.

As a result of these conclusions, two recommendations are offered:

- o The DOD should recognize the detrimental effects of adversarial relationships and should issue a firm position against this phenomenon. The DOD policy should be specifically directed at program managers and procurement personnel and should emphasize the need for developing an atmosphere in which all parties can best fulfill their objectives.
- o Defense acquisition agencies should recognize the inherent risk in reducing the program managers' authority to control the government/contractor relationships that develop within their programs. Specific attention should be focused on the consequences of withdrawing functional specialists from the program offices.



## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	ii
I INTRODUCTION .....	1
II ADVANTAGES AND DISADVANTAGES OF AN ADVERSARIAL RELATIONSHIP...	3
III CURRENT POLICY AND PRACTICE .....	5
IV ANALYSIS OF THE PROBLEM .....	9
Immediate Causes of the Problem .....	9
Underlying Causes of the Problem .....	14
V TRENDS .....	17
VI CONCLUSIONS AND RECOMMENDATIONS .....	18
BIBLIOGRAPHY	

## I INTRODUCTION

The weapons acquisition environment in the United States is characterized by a demand for increasingly complex and costly weapons systems which must be met through diminishing dollar and personnel resources. Consequently, it is vital that every aspect of the acquisition process be explored with the objective of identifying and removing impediments to successful acquisition management.

An important aspect of the weapons acquisition process is the relationship that exists between the government and its contractors. The character of this relationship can pave the way for the successful completion of a project or it can serve as an avenue for the program's eventual demise. The relationship that exists between the government and the contractor has, perhaps, been eclipsed by more visible problems concerning cost overruns and schedule delays. However, as will be illustrated in this paper, the relationship that develops during the life of a program can have a very pronounced effect on costs, schedules and, ultimately, the success of a program.

The character of the relationship that develops between government personnel and contractor personnel can fall along a continuum. This continuum runs from one extreme characterized by friendly, trusting and possibly non-demanding or permissive relations to the other extreme characterized by an unyielding, demanding, legalistic and oftentimes acrimonious , adversarial relationship. It is with this later portion of

the continuum, where each party views the other as an adversary, that this paper is concerned.

Because of the oligopolistic<sup>1</sup> character of the defense market, it appears that government officials may tend to ignore the importance of the relationship with contractors. As the single buyer dealing with multiple sellers, and thus the one who makes the demands, government officials have been able to disregard the importance of their relationship with the contractor.

Contractors, on the other hand, are seriously concerned with this aspect of their business. The National Security Industrial Association, for example, recently stressed the "need to improve the credibility of the DOD procurement process... and strengthen the mutual trust and respect between DOD and industry."<sup>2</sup> Or, as simply stated by an industry representative, "... the adversarial nature of the relationship between DOD and the defense industry is more detrimental to productivity than it is beneficial."<sup>3</sup>

---

<sup>1</sup>Peck and Sherer take the position that the government is not a single buyer but a multibuyer. Thus, they do not view the market as oligopolistic. However, when each program is viewed individually, the market is characterized by one buyer (the government) dealing with many bidders (contractors). In this context and for the purpose of this paper, the market may thus be defined as oligopolistic. (Merton J. Peck and Frederic M. Scherer, The Weapons Acquisition Process: An Economic Analysis (Boston: Harvard University, 1962), p. 76.

<sup>2</sup>J. M. Lyle, President, National Security Industrial Association, personal letter to William P. Clements, Jr., Deputy Secretary of Defense, 18 April 1975.

<sup>3</sup>Paul R. Siconolfi, "The Adversarial Relationship Between DOD and the Defense Industry: Is it an Aid or an Impediment to Productivity?" (Study Project Report PMC 76-1, Defense Systems Management School, Fort Belvoir, Virginia, 1976), p.1.



The purpose of this paper will be to explore the adversarial aspects of the government/contractor relationship. Specific attention will be directed towards:

- o determining specific DOD policy and contrasting this to actual practice,
- o identifying and analyzing the causes behind this relationship,
- o identifying trends that are developing, and finally,
- o offering some conclusions and recommendations.

The scope of this paper will be limited to a broad treatment of the subject. Due to the size limitations of the paper, it will focus on identification and overall explanation of the problem. A detailed, in-depth analysis of each aspect of the problem will be left to future efforts.

## II. ADVANTAGES AND DISADVANTAGES OF AN ADVERSARIAL RELATIONSHIP

Before delving into the study, it may be of benefit to develop a common ground of understanding by briefly analyzing the benefits and disadvantages that can accompany an adversarial relationship. On a short term basis, an adversarial relationship may offer an advantage to the government. By assuming a firm, legalistic and perhaps hostile stance against the contractor, the government may initially obtain concessions from the contractor in such areas as contract price, schedule and technical effort.

In addition, by approaching the contractor as an adversary, government personnel lessen the risk of being accused of duplicity with the contractor. The current scandals involving defense contractors and government officials

will undoubtedly have a lingering effect of making government employees particularly wary of taking any action that might be interpreted as an indication of bias towards the contractor. The opposite extreme, i.e., regarding the contractor as an adversary will further insulate government personnel against criticism in this area.

In contrast to these somewhat superficial advantages of adversarial relationships are a number of rather serious disadvantages. One concerns the behavioral pattern in which individuals tend to conform to the role that is expected of them. This self-fulfilling prophesy can apply to contractors who are assumed by the government to warrant suspicion. Eventually, the contractor's performance may reflect this role. In short, a contractor who is approached as an organization that is expected to resort to strategem may ultimately fulfill that expectation. Furthermore, if a contractor perceives that he is in an environment where the government will attempt to strip him of all his rightful profit, it is conceivable that the contractor will do everything in his power (ethically or perhaps unethically) to protect his profit.

With the foregoing factors in mind, a basic assumption will be made in this paper. That assumption is that an atmosphere of distrust and suspicion between the government and the contractor is not conducive to gaining the ultimate government objective of "fielding a system meeting the specified and desired characteristics at the lowest total cost."<sup>1</sup> An adversarial relationship tends to place a heavy drain on the managerial resources of both the contractor and the government. Both parties in this

---

<sup>1</sup> Logistics Management Institute, Introduction to Military Program Management (Washington, D. C., 1971), p.10.



relationship must continually respond to unproductive demands caused and perpetuated by this relationship. These are resources that rightfully should be applied to the performance of the contract and management of the program.

### III. CURRENT POLICY AND PRACTICE

An investigation of current defense policy concerning adversarial relationships with contractors disclosed that no formal policy existed. A careful search of procurement regulations and DOD directives concerning the acquisition process was accomplished. No reference to adversarial relationships was discovered. Discussion with Air Staff and Air Force Systems Command procurement officials indicated a general consensus concerning what constituted the "right" relationship. This was loosely described as a "formal, arms length, businesslike" approach.<sup>1</sup> However, this concept did not stem from any formal guidance or conscious effort to define the relationship.

The indication is that the subject has not been generally recognized by government officials as one that may impede the weapons acquisition process or serve as a causative factor for acquisition difficulties.

The importance of developing a good relationship has been recognized in at least one of the sub-sets of the acquisition process. Speaking specifically of the negotiation process, the Armed Services Procurement Manual for Contract Pricing states:

---

<sup>1</sup>This information was obtained through discussions with the Air Force Procurement Policy Office, 19 August 1976, and the Air Force Systems Command Procurement Policy Directorate, 26 August 1976.

Successful negotiation demands that you establish and maintain sound, cooperative and mutually respectful relationships with the contractors. Merchandise can't<sup>1</sup> be sold in an atmosphere of distrust and deception...

At this point it should be emphasized that the adversarial relationship as explored in this study, spans the entire life of a program from its early conceptual phase to conclusion of the program. The relationship encountered during negotiation is only one aspect of the ongoing government/contractor relationship. In fact, in light of the artificial and sometimes theatrical relationships that are sometimes employed by both the government and industry as a negotiation technique, the relationship encountered during that brief period can effectively be disregarded.

One policy level official expressed surprise that an adversarial relationship might exist or have a detrimental effect on the acquisition process. Another official acknowledged that it may exist in some instances but that most of the burden of guilt lay with the contractor.

In contrast to these opinions is the recent Profit '76 Procurement Personnel Opinion Survey.<sup>2</sup> This survey was part of a DOD sponsored study to identify policy revisions that would better motivate defense contractors. The survey analyzed the results of 200 questionnaires mailed to defense procurement personnel.

---

<sup>1</sup>Armed Services Procurement Regulation Manual for Contract Pricing, ASPM No. 1 (Chicago: Commerce Clearing House, Inc., 1975), p. 7A25.

<sup>2</sup>Coopers & Lybrand, Profit '76 Procurement Personnel Opinion Survey, Vol 1, (Washington, D.C.: Coopers & Lybrand, 1976)

Among the questions asked were the following:<sup>1</sup>

	Disagree	Agree
Contractors would not cooperate with contracting officials to make this program (DPC 107) successful.	5%	45%
Contractors include a "fudge factor" in their proposals to allow the government to negotiate the price downward.	7%	48%
As part of a long range marketing strategy contractors will bid low on competitive procurements, knowing that they will lose money in the short run.	12%	68%

A conclusion drawn from the responses was that:

Obviously the respondents view the defense contractors as an adversary who must be managed and/or controlled at the bargaining table. These attitudes may pose a difficult hurdle in trying to reshape procurement policy to new or different objectives.<sup>2</sup>

Opinions drawn from contractor personnel reinforce the conclusion that the adversary relationship is an impediment to the acquisition process. A recent study by Paul Siconolfi, Aeronautic Ford Corporation, indicated widespread agreement amongst his contemporaries that the adversarial relationship was a significant detrimental factor in government/contractor relations.<sup>3</sup> To provide an indication of contractor reaction to the subject, the following responses to Siconolfi's questions concerning the adversarial relationship are quoted from his study:

---

<sup>1</sup>Ibid., p. 20.

<sup>2</sup>Ibid.

<sup>3</sup>Paul R. Siconolfi, "The Adversarial Relationship Between DOD and the Defense Industry: Is it an Aid or an Impediment to Productivity?" (Study Project Report 76-1, Fort Belvoir, Virginia, Defense Systems Management School, 1976), p. 39.



- o It's definitely an issue. I agree there's a strong adversarial climate between two bureaucratic organizations, each with self-interests, self-beliefs and a need for self-justification.
- o The adversarial concept is certainly an impediment . . .
- o I feel it is becoming more and more of an impediment.
- o It is getting worse, harder and harder . . .<sup>1</sup>

Siconolfi indicated that he found few individuals who felt that the relationship was non-adversarial. Further, everyone questioned by him felt that this quality was undoubtedly an impediment to productivity.

His study also indicated that the adversarial relationship encompassed much more than just the procurement and cost/price areas of programs. It was a significant aspect of the technical, interpersonal, legal and other areas that constitute the broad spectrum of government/contractors relations.<sup>2</sup>

The prevalence of the adversary relationship is also substantiated in a recent study published by the Conference Board. The purpose of the study was to present the financial community's perspective of the defense industry. In the view of corporate debt financiers, the climate of doing business with the Department of Defense has a number of very negative aspects. Life insurance companies, for example, felt that defense contractors were seriously hampered by the attitude within the Department of Defense.

The DOD is said to maintain an adversary relationship with its suppliers: there is not the cooperation and reasonableness one finds in the commercial world. "You

---

<sup>1</sup>Ibid., p. 26.

<sup>2</sup>Ibid., pp. 28-30.

can generally sit down with a commercial customer, analyze problems that have arisen and settle them quietly and effectively," a survey participant stated. The DOD, on the otherhand, is characterized as being hard nosed, rigid and inflexible. It also manifests little loyalty to suppliers, little interest in their long run stability and strength.<sup>1</sup>

The conclusion drawn from the foregoing source is that there is a prevailing adversarial relationship between the government and defense contractors. Further, this relationship jeopardizes the successful accomplishment of the weapons acquisition process.

#### IV. ANALYSIS OF THE PROBLEM

In this section we will look at the immediate causes of adversarial relationships. Next, the underlying factors that set the stage for these causes will be explored.

##### Immediate Causes of the Problem

In their analysis of the weapons acquisition process, Peck and Scherer point out one of the basic reasons for conflict between buyer and seller:

It is generally assumed that a major objective of contractors is to maximize profits, presumably by maximizing the "price" stated in a contract, and that these profit maximization efforts conflict with the government's goal of minimizing weapons costs.<sup>2</sup>

---

<sup>1</sup>James K. Brown and George S. Stothoff, The Defense Industry: Some Perspectives from the Financial Community (New York: The Conference Board, Inc., 1976), p. 26.

<sup>2</sup>Merton J. Peck and Frederic M. Scherer, The Weapons Acquisition Process: An Economic Analysis, p. 457.



It can be determined from the Profit '76 survey that procurement officials still hold this belief and consider it their specific duty to ensure that contractor's profits are kept at a minimum. It is interesting to note that with all the attention that is focused on the contractor's profit, this is typically only 4.7% of the total contract price.<sup>1</sup> Perhaps a disproportionate amount of government attention is focused on this single aspect of pricing.

One immediate cause of conflict, then, is the particularly strong, and perhaps disproportionate, emphasis that the government places on curtailing contractor profits.

The next cause of difficulty lies in the nature of the procurement system. The rules and procedures for doing business with the Department of Defense are extremely complicated and burdensome. The entire umbrella of government procurement is not one under which it is easy to build a good rapport between buyer and seller. As Grayson Merrill points out:

Doing business with the government is quite different from doing business with industry or the general public. Procurement policy is set by Congress, perforce by a body of politicians, most of whom have little business experience.<sup>2</sup>

---

<sup>1</sup>4.7% is the average profit in percent derived by dividing the profit before taxes by sales for a sample of 61 defense contractors. This was determined for a 5 year period. 4.7% represents the average profit on fixed price contracts. The average profit for cost contracts was 4.5%. The corresponding profit for commercial profit centers was 17.1%. Source: Briefing on Profit '76 presented at NCMA meeting, Arlington, Virginia, 13 September 1976.

<sup>2</sup>Grayson Merrill, Managing a Defense Company (New York: Exposition Press, 1972), p. 101.

Merrill goes on to warn defense managers that they must be prepared to cope with the following conditions:

The presence of contract and project managers whose decisions in contract administration are inhibited by the extensive documentation, multiple reviews, and critical postmortems scrutiny they involve.

. . . constant turnover of career military personnel in key procurement positions, which inhibits continuity and emphasizes the need for documenting decisions.

. . . Surveillance of company operational practice, which has no counterpart in usual business. This is always well-intended, but sometimes conducted by incompetent personnel whose recommendations for improvement are untimely, if not impractical.<sup>1</sup>

Merrill, a retired Navy officer, also has laudatory comments concerning the defense procurement system. However, the point is made that the system is a difficult one in which to operate.

It should not be concluded that difficulties in government/contractor relations all stem from the government. Both sides have contributed to the problem. One source of animosity lies in the marketing practices conducted by some contractors. An example was the recent modification of a widely used military aircraft. The airplane manufacturer developed the modification and then conducted an intense campaign directed at Congress and key Defense Department officials. The company also informally quoted an estimate of the cost of the modification. Eventually, the modification and associated cost was well fixed in the minds of the key officials. The program was endorsed by Congress and the Air Force proceeded with the effort. However, when a formal offer was made, the price had risen sharply. The Air Force then had no choice but to request additional money. In the eyes of Congress, who

---

<sup>1</sup> Ibid.

recalled the company's marketing effort, it appeared that the first thing the Air Force had done was to overrun the program. The result was that the Air Force was forced into an embarrassing position and perhaps understandably became an adversary of the contractor.

The next source of difficulty is one that pervades the defense acquisition process. This is the functional orientation that is found within the acquisition system. The complexity of system acquisition demands that individuals from a number of differing functional areas contribute to the process. The specialists involved may be assigned to the program office, or they may be in functional organizations assigned the responsibility for providing support to a program. In either case, individuals tend to retain their functional orientation and thus contribute to a sub-optimization within the program. As an example, pricing analysts are evaluated on their depth of analysis of a proposal. Their objective is to identify the greatest number of areas and the greatest dollar amount where the proposed price can be questioned. The PCO also has an objective to meet as he attempts to negotiate the lowest price for the government. He is evaluated, informally or otherwise, by the size of the concessions he is able to wrest from the contractor. Engineering personnel, because they are charged with the technical performance of the system, focus on this area. Frequently, they attempt to maintain technical performance at the expense of costs and schedule. Each individual, then, tends to look at the system from the perspective of his own areas of responsibility. The program manager, who is charged with overseeing the tradeoffs between competing objectives, is not always able to successfully accomplish these tradeoffs. In many cases, he may not have direct authority



over his functional specialists. The result of these competing and conflicting objectives is that it is very easy for each individual to fall into the role of adversary to ensure that his particular objectives are met.

A case in point occurs when a functional specialist, in his well-intentioned but narrow focus, repeatedly requires the contractor to respond with unnecessary additional technical depth or cost justification. The added manpower costs associated with answering these demands may outweigh the value of the particular item or issue in question.

Next, it would be useful to look briefly at a number of practices that result in programs being underbid. When this occurs, it is very difficult for the government and contractor to avoid becoming adversaries. It is emphasized that these practices are not the basic underlying causes of difficulty. Instead, they are the unfortunate result of deeper problems. They are symptoms rather than the disease.

The first practice commonly occurs when a contractor believes he will have little chance for gaining future contracts unless he wins the initial contract. This creates a "win at any cost" philosophy and can result in a contractor seriously underbidding a contract. Next, is the situation where a company is most immediately concerned with providing revenue to cover its fixed costs. The result is that the company bids low enough to only attain this limited goal. This is the situation where the company learns the dollar limit for a contract and bids accordingly.<sup>1</sup>

---

<sup>1</sup>This list of practices was drawn principally from a report prepared by NSIA and forwarded to Deputy Secretary of Defense Clements by J. M. Lyle, 19 April 1975.

All the foregoing factors lead to "buy-in" situations with the inevitable result that the program is underpriced and both parties eventually become adversaries.

#### Underlying Causes of the Problem

The causes of adversarial relationships that have been described thus far are causes that have, in turn, resulted from more fundamental problems affecting the weapons acquisition process. These fundamental problems begin with public attitudes, which, in turn, are reflected in Congressional attitudes. The Department of Defense and defense contractors must ultimately cope with these attitudes and the pressures that result. This leads to a number of practices which eventually result in an adversary relationship between government and contractor. This sequence of causes will be briefly explored.

Public Attitudes - The rising costs of military weapons have become very visible to the public. As a result of inflation, the increasing complexity of weapons systems and the manner in which cost overruns are presented to the public, many Americans have developed a negative view of defense spending. This, coupled with what appears to have become a fundamental public attitude of distrust of the "military/industrial complex", has made practically all defense spending a subject of suspicion.

Years of unfavorable publicity in the cost area have placed the Department of Defense in a position where any cost overrun will draw public censure. In his article on Congress and the New Procurement Wisdom, Herbert Robach states:

As everyone knows, overruns are not unique to defense procurement but in this area, perhaps the emphasis they get fills a psychic need. Overruns in the public mind are equated not only with poor judgment and bad management, but with private enrichment.<sup>1</sup>

---

<sup>1</sup>Herbert Robach, "Congress and the New Procurement Wisdom," Defense Management Journal, July 1972, pp. 19-24.



A basic underlying factor then, that leads to eventual difficulty in government/contractor relationships, is the prevailing public attitude concerning weapons acquisition. Specifically, the public takes a very critical view of any failure on the part of the Defense Department to meet cost or technical performance goals.

Congressional Attitudes - Because of the nature of the American political system, Congressional attitudes tend to reflect the attitudes of constituents. Because highlighting an overrun or other system acquisition difficulty is likely to bring favorable publicity to some Congressional members, these problems are frequently paraded before the public, sometimes in the most bizarre manner.

There are also many fundamental disagreements in Congress concerning the application of the country's fiscal resources. Further, there are many Congressmen who are sincerely concerned with reducing federal spending, not only in defense, but in all areas.

These factors combine to form an environment where any acquisition problem can elicit intense criticism from Congress. And, as Robach points out, "It (Congress) controls the flow of programs and funds. It turns the water on and off."<sup>1</sup>

Department of Defense Practices - Faced with pressure from Congress and the public, DOD must make every effort to avoid cost overruns and other program deficiencies. The consequence of an overrun is not only criticism, but more important, it can result in a program's cancellation by Congress. These pressures ultimately focus on the program manager and his supporting personnel. In order for their program to survive, they must do everything within their

---

<sup>1</sup>Ibid., p.19.

power to hold down costs, while at the same time meeting technical requirements. Consequently, it is very easy for them to fall into an adversarial relationship with the contractor. This is particularly true if, as the result of one of the aforementioned practices, the contract is underpriced.

Because of the intense pressure to hold down the costs of weapon systems, there appears to be a tendency to inadequately fund programs. In their letter to Deputy Secretary Clements, the National Security Industrial Association discussed inadequate funding practices by the procuring agencies:

The funding which is known to be available for a particular program may, for various reasons, be less than that which is required in order to perform the work properly. Such funding inadequacies may be due to "downward bias" (the desire, conscious or otherwise, on the part of the agency to look optimistically at costs so as to better sell the program to Congress, OMB, etc.)<sup>1</sup>

When this occurs, the program inevitably develops financial difficulties and the program manager, once again must take a hard line with the contractor.

The existence of this cause and effect relationship is emphasized in a study by the Logistics Management Institute. The fundamental problem, according to industry sources interviewed by L.M.I. is an overoptimism that permeates the whole acquisition process.

It starts, they maintained, with understated estimates of program costs by the Services, sometimes in response to pressures put upon them by OSD. It continues with pressure put on contractors to respond with proposals to meet the Service objectives. It ends, they said, with a blurring of responsibility for the resulting cost-performance problems and excessively adversary relationships.<sup>2</sup>

---

<sup>1</sup>J.M. Lyle, President, NSIA, to Deputy Secretary of Defense Clements, 18 April 1975, p.5.

<sup>2</sup>The DOD Contractor Relationship, Task 71-16 (Washington, D.C.: The Logistics Management Institute, November 1973), p. 60.

The L.M.I. point is well taken, although the conclusion should not be drawn that underbidding is exclusively the result of overoptimism.

In summary, an underlying cause behind adversarial relationships is the prevailing public attitude concerning defense spending and defense cost overruns. This attitude is reflected in Congress and in many instances even reinforced by Congress. The Department of Defense then reacts with an intense effort to control costs. Ultimately, these pressures are focused on the program manager and his supporting personnel, who are left little maneuvering room in which to effectively manage a program. The solution, in many cases is to face the contractor as an adversary who can be allowed no quarter.

At the same time, contractors feel compelled to resort to the practices described earlier. The result, again, is the eventual collision of forces between a contractor who is short of revenue and a program manager who must keep his program within its parameters.

## V. TRENDS

In analyzing the factors that lead to adversarial relationships, two trends become apparent. An attempt has been made in this paper to show how public, congressional and, ultimately, DOD attitudes impact the government/contractor relationship. Suspicion concerning the "military/industrial complex" and increased resistance to defense spending are very significant factors in weapons systems acquisition. Also associated is the increasing pressure to allocate national resources into non-defense areas. In particular is the pressure to increase public spending in the social-services sector. As these pressures build, the public outcry over high weaponry costs and cost overruns will increase. An inevitable consequence must be increased efforts



to hold down costs. The result will be an accelerated trend towards increasingly adversarial relationships.

The other trend results from a change that is evolving in defense program management organizations. In order to meet other goals, i.e., a more effective use of personnel resources, there is a trend, at least in some Air Force organizations, towards dissolving the traditional program office structure. Functional specialists such as engineers, procurement personnel and program controllers are being removed and placed under functional directors rather than being placed under the control of the program manager. As these personnel will no longer answer directly to the program manager, there will be increased functional orientation and less ability on the part of the program manager to control the adversarial relationships that can result.

## VI. CONCLUSIONS AND RECOMMENDATIONS

The conclusions drawn from the study are:

- o There is no specific DOD policy concerning government/contractor adversarial relations.
- o The existence of this type of relationship is widespread in the defense arena.
- o An adversarial relationship is detrimental to both government and contractor interests.
- o Adversary relationships spring, in part, from a number of practices that result in underpricing of contracts.
- o The underlying causes of adversarial relationships can be traced to public and congressional attitudes towards defense spending.

- o The prevalence and seriousness of this type of relationship can be expected to increase in the immediate future.

As a result of the foregoing conclusions, the following recommendations are offered:

- o The DOD should recognize the detrimental effects of adversarial relationships and should issue a firm position against this phenomenon. The DOD policy should be specifically directed at program managers and procurement personnel and should emphasize the need for developing an atmosphere in which all parties can best fulfill their objectives.
- o Defense acquisition agencies should recognize the inherent risk in reducing the program manager's authority to control the government/contractor relationships that develop within their programs. Specific attention should be focused on the consequences of withdrawing functional specialists from the program offices.

Many of the causative factors behind adversarial relationships concern costs. However, it is not suggested that DOD soften its position against overruns or develop a policy of acquiescence towards contractor demands. Nor is it suggested that the government tolerate a permissive environment for contractors. What is recommended is that the DOD take positive steps to develop an atmosphere which is optimal for the accomplishment of both sides' objectives. This can be done by ensuring that contracts are properly priced and funded (however difficult this may be) and that all participants are properly oriented towards the overall program objectives.

#### BIBLIOGRAPHY

1. Armed Services Procurement Regulation Manual for Contract Pricing, ASPM No. 1. Chicago: Commerce Clearing House, Inc., 1975.
2. Brown, James K. and Stothoff, George S. The Defense Industry: Some Perspectives from the Financial Community. New York: The Conference Board, Inc., 1976.
3. Coopers and Lybrand. Profit 76 Procurement Personnel Opinion Survey, vol. 1. Washington, D.C.: Coopers and Lybrand, 1976.
4. Logistics Management Institute. Introduction to Military Program Management. Washington, D. C.: Logistics Management Institute, 1971.
5. Logistics Management Institute. The DOD Contractor Relationship, Task 71-16. Washington, D. C.: Logistics Management Institute, 1973.
6. Lyle, J. M., National Security Industrial Association, personal letter to William P. Clements, Jr., 18 April 1975.
7. Merrill, Grayson. Managing a Defense Company. New York: Exposition Press, 1972.
8. Peck, Merton J., and Scherer, Frederic M. The Weapons Acquisition Process: An Economic Analysis. Boston: Harvard University, 1962.
9. Robach, Herbert. "Congress and the New Procurement Wisdom." Defense Management Journal, July 1972, pp. 19-24.
10. Siconolfi, Paul R. "The Adversarial Relationship Between DOD and the Defense Industry: Is it an Aid or an Impediment to Productivity?" Study Project Report 76-1. Fort Belvoir, VA, Defense Systems Management School, 1976.



FILM  
4